

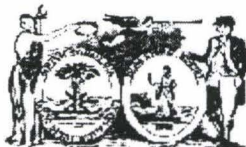
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*State Budget and Control Board*  
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R. VOIGHT SHEALY  
MATERIALS MANAGEMENT OFFICER

September 26, 2001

Mr. George N. Dorn, Director  
Office of General Services  
1201 Main Street, Suite 420  
Columbia, South Carolina 29201

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STATE DOCUMENTS

Dear George:

I have attached the audit report for Denmark Technical College. Since we are not recommending any certification above the basic \$5,000 allowed by the Code, no action is required by the Budget and Control Board. Therefore, I recommend that the report be presented to the Budget and Control Board as information.

Sincerely,

R. Voight Shealy  
Materials Management Officer

/jl

**DENMARK TECHNICAL COLLEGE  
PROCUREMENT AUDIT REPORT  
JULY 1, 1999 - MARCH 31, 2001**

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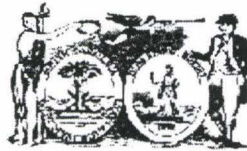
NOTE: The College's responses to issues noted in this report have been inserted immediately following the items they refer to.

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R. VOIGHT SHEALY  
MATERIALS MANAGEMENT OFFICER

August 1, 2001

Mr. R. Voight Shealy  
Materials Management Officer  
Office of General Services  
1201 Main Street, Suite 600  
Columbia, South Carolina 29201

Dear Voight:

We have examined the procurement policies and procedures of Denmark Technical College for the period July 1, 1999 through March 31, 2001. As part of our examination, we studied and evaluated the system of internal control over procurement transactions to the extent we considered necessary.

The evaluation was to establish a basis for reliance upon the system of internal control to assure adherence to the Consolidated Procurement Code, State regulations and the College's procurement policy. Additionally, the evaluation was used in determining the nature, timing and extent of other auditing procedures necessary for developing an opinion on the adequacy, efficiency and effectiveness of the procurement system.

The administration of Denmark Technical College is responsible for establishing and maintaining a system of internal control over procurement transactions. In fulfilling this

responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance of the integrity of the procurement process, that affected assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and are recorded properly.

Because of inherent limitations in any system of internal control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation of the system of internal control over procurement transactions, as well as our overall examination of procurement policies and procedures, were conducted with professional care. However, because of the nature of audit testing, they would not necessarily disclose all weaknesses in the system.

The examination did, however, disclose conditions enumerated in this report which we believe need correction or improvement.

Corrective action based on the recommendations described in these findings will in all material respects place Denmark Technical College in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

Sincerely,



Larry G. Sorrell, Manager  
Audit and Certification



## INTRODUCTION

We conducted an examination of the internal procurement operating policies and procedures of Denmark Technical College. Our on-site review was conducted June 8-28, 2001, and was made under Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code and Section 19-445.2020 of the accompanying regulations.

The examination was directed principally to determine whether, in all material respects, the procurement system's internal controls were adequate and the procurement procedures, as outlined in the Internal Procurement Operating Procedures Manual, were in compliance with the South Carolina Consolidated Procurement Code and its ensuing regulations.

Additionally, our work was directed toward assisting the College in promoting the underlying purposes and policies of the Code as outlined in Section 11-35-20 which include:

- (1) to ensure the fair and equitable treatment of all persons who deal with the procurement system of this State
- (2) to provide increased economy in state procurement activities and to maximize to the fullest extent practicable the purchasing values of funds of the State
- (3) to provide safeguards for the maintenance of a procurement system of quality and integrity with clearly defined rules for ethical behavior on the part of all persons engaged in the public procurement process

## SCOPE

We conducted our examination in accordance with Generally Accepted Auditing Standards as they apply to compliance audits. Our examination encompassed a detailed analysis of the internal procurement operating procedures of Denmark Technical College and its related policies and procedures manual to the extent we deemed necessary to formulate an opinion on the adequacy of the system to properly handle procurement transactions.

We systematically selected samples from the period July 1, 1999 through March 31, 2001 of procurement transactions for compliance testing and performed other audit procedures that we considered necessary to formulate this opinion. Specifically, the scope of our audit included, but was not limited to, a review of the following:

- (1) All sole source, emergency and trade-in sale procurements from the period July 1, 1999 through March 31, 2001
- (2) Procurement transactions from the period July 1, 1999 through March 31, 2001 as follows:
  - a) Forty-four payments each exceeding \$1,500
  - b) A block sample of five hundred fifty sequential numbered purchase orders from FY 01 reviewed for order splitting and favored vendors
  - c) A review of eighty-three payments from five vendor files reviewed for compliance
- (3) Surplus property procedures
- (4) Minority Business Enterprise Plans and reports
- (5) Information technology plans for the audit period
- (6) Internal procurement procedures manual
- (7) File documentation for evidence of competition

## SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system at Denmark Technical College, hereafter referred to as the College, produced findings and recommendations as follows.

|   | <u>PAGE</u> |
|---|-------------|
| I. <u>Unauthorized Items</u>  |             |
| A. <u>Change Orders</u>   | 6           |
| Nine invoices were paid in violation of the College's change order policy.  |             |
| B. <u>Direct Expenditure Voucher Policy</u>   | 7           |
| Five payments were made by direct expenditure vouchers for items that were not authorized under the policy.   |             |
| II. <u>Compliance – General</u>   |             |
| A. <u>Procurements Without Competition</u>  | 7           |
| Three procurements were not supported by competition, sole source or emergency determination, term contract reference or classified as exempt.  |             |
| B. <u>Late Payments</u>   | 8           |
| Twelve checks included payments for invoices older than thirty working days.  |             |
| C. <u>Combining Items</u>   | 9           |
| We noted three services that should be competed.  |             |
| D. <u>Inadequate Competition</u>  | 10          |
| An award was made using responses to a solicitation that were received six months prior to the award. More importantly, the award was not issued to the lowest response.  |             |
| III. <u>Quarterly Reporting</u>   | 10          |
| The College did not prepare the quarterly reports for the Minority Business Enterprise Program for the audit period. The reports of sole source, emergency and trade-in activity for two quarters were not prepared either. |             |



## RESULTS OF EXAMINATION

### I. Unauthorized Items

#### A. Change Orders

The College paid the following nine invoices that exceeded the purchase order by five percent without an applicable change order.

| <u>Check</u> | <u>Purchase<br/>Order</u> | <u>Purchase<br/>Order Amount</u> | <u>Invoice Amount</u> | <u>Description</u>    |
|--------------|---------------------------|----------------------------------|-----------------------|-----------------------|
| 98833        | 20161                     | \$1,454                          | \$1,772               | Venetian blinds       |
| 101107       | 20328                     | 370                              | 753                   | HVAC repairs          |
| 101249       | PF0239                    | 4,260                            | 4,985                 | Replacing stage floor |
| 104779       | 20819                     | 4,500                            | 5,800                 | Furniture storage     |
| 104784       | 21008                     | 1,255                            | 1,551                 | HVAC repairs          |
| 105581       | 21203                     | 3,544                            | 5,512                 | Newspaper advertising |
| 105720       | 21226                     | 437                              | 800                   | HVAC repairs          |
| 105720       | 021212                    | 1,495                            | 1,832                 | HVAC repairs          |
| 5000006      | P0000387                  | 1,343                            | 1,516                 | HVAC repairs          |

The Purchasing Policies and Procedures Manual requires that a change order be issued for invoices that exceed the purchase order by five percent. The manual further requires that the change order be approved by the Vice President for Fiscal Affairs. Since the manual places change order authority with the Vice President for Fiscal Affairs, the payments were unauthorized as defined in Regulation 19-445.2015.

We recommend the College comply with the five- percent policy as defined in its manual. The College must request ratification of the nine unauthorized change orders from the President or her designee in accordance with Regulation 19-445.2015.

### COLLEGE RESPONSE

The College has reviewed its policy and procedures with business office personnel and has made specific procurement system changes to ensure that the Vice President for Fiscal Affairs approves purchase orders and invoices. A form has been revised that requires the Accounts Payable Office to certify that a change order has been made according to the Code before a check is generated.

Ratification of these unauthorized purchases have been requested and approved in accordance with the regulation.

B. Direct Expenditure Voucher Policy

The College includes a direct expenditure voucher (DEV) policy in the Purchasing Policies and Procedures Manual. The policy defines items that can be procured and paid with the DEV. The following five items were paid using a DEV, however the items were not defined in the policy.

| <u>Check</u> | <u>Amount</u> | <u>Description</u>        |
|--------------|---------------|---------------------------|
| 101690       | \$ 1,800      | Homecoming floats         |
| 104648       | 4,500         | Software support services |
| 1002652      | 972           | T-Shirts                  |
| 1003046      | 29            | Film development          |
| 1004852      | 105           | Picture card for camera   |

Since the payments were not made in compliance with the DEV policy, each payment was unauthorized as defined in Regulation 19-445.2015.

We recommend the College adhere to its DEV policy. The College must request ratification of each unauthorized payment from the President or her designee in accordance with Regulation 19-445.2015.

**COLLEGE RESPONSE**

The College concurs with the finding regarding the DEV policy. The College's procurement manual has been revised to include additional expenditures within the procurement guidelines regarding the use of DEVs. Ratification has been requested and approved for these items in accordance with the regulations.

II. Compliance - General

A. Procurements Without Competition

The following three procurements were not supported by either solicitation of competition, sole source or emergency determination, term contract reference, or classified as exempt.

| <u>Check</u> | <u>Purchase Order</u> | <u>Amount</u> | <u>Description</u>       |
|--------------|-----------------------|---------------|--------------------------|
| 101234       | 20628                 | \$2,531       | Letterhead and envelopes |

| <u>Check</u> | <u>Purchase Order</u> | <u>Amount</u> | <u>Description</u>                           |
|--------------|-----------------------|---------------|--|
| 1000456      | P0000095              | \$2,427       | Letterhead and envelopes                     |
| 104779       | 20819                 | 5,800         | Total furniture storage<br>with change order |

We recommend the College adhere to the competition requirements of the Code when the total potential value exceeds \$1,500.

### COLLEGE RESPONSE

The College concurs with the finding regarding the purchase of letterhead and the storage of furniture. The Vice President for Fiscal Affairs has reviewed the procurement process with staff to ensure that requisitions are supported with correct and current documentation when received in the business office for processing. Additional steps have been taken at approval levels to ensure competition compliance requirements.

#### B. Late Payments

The following invoices were not paid within thirty work days.

| <u>Check</u> | <u>Check Date</u> | <u>Invoice Dates</u>                                | <u>Amount</u> | <u>Description</u> |
|--------------|-------------------|---|---------------|--------------------|
| 098768       | 9/14/99           | 3/18/99<br>5/27/99<br>6/27/99<br>5/27/99<br>6/24/99 | \$ 1,510      | Office supplies    |
| 098778       | 9/14/99           | 7/01/99<br>6/25/99<br>6/25/99                       | 2,038         | HVAC repairs       |
| 099054       | 10/06/99          | 8/05/99   | 457           | HVAC repairs       |
| 099097       | 10/6/99           | 7/16/99   | 19            | Office supplies    |
| 099141       | 10/11/99          | 7/23/99   | 451           | Office supplies    |
| 099249       | 10/15/99          | 7/21/99   | 452           | Office supplies    |
| 101107       | 12/23/99          | 8/18/99   | 753           | HVAC repairs       |
| 101947       | 2/29/00           | 9/30/99   | 645           | Rekeying services  |
| 104910       | 6/13/00           | 1/10/00   | 662           | Rekeying services  |
| 099097       | 10/6/99           | 7/16/99<br>7/12/99<br>7/12/99                       | 354           | Office supplies    |



| <u>Check</u> | <u>Check<br/>Date</u> | <u>Invoice Dates</u>                         | <u>Amount</u> | <u>Description</u>                           |
|--------------|-----------------------|--|---------------|--|
| 101933       | 2/25/00               | 12/09/99<br>12/15/99<br>12/21/99<br>12/29/99 | \$725         | Items for housing                            |
| 103450       | 4/17/00               | 1/10/00<br>1/18/00<br>1/24/00<br>1/20/00     | 110           | Photography supplies<br>and film development |

Section 11-35-45 of the Code requires the payment of invoices no later than thirty work days after the satisfactory receipt of the items and invoices. The documentation did not indicate any reason for the late payments.

We recommend the College review its procedures to identify the cause of late payments and take the appropriate action to comply with the payment requirement defined in the Code.

#### COLLEGE RESPONSE

The College has reviewed its procedures regarding payment of invoices to determine the cause of late payments. The College noted a specific item in which a vendor will leave an invoice with the department receiving the service or placed in packages that are shipped. The Office of Fiscal Affairs is hampered from paying these invoices within thirty days when the invoices have not arrived. Invoices received directly by the Business Office via mail are dated and processed within five working days.

#### C. Combining Items

For the period July 1, 1999 to March 31, 2001, the College made payments of \$12,688 to a photography vendor, \$9,466 to a HVAC vendor, and \$11,345 to a locksmith. Since the College has a definable need, competition could be solicited based on the total potential value.

We recommend the College solicit competition on the total potential value of the procurements for these items.

#### COLLEGE RESPONSE

The College concurs with the finding. The Procurement Office has identified vendors that may have the total potential value of competition. Solicitations are being prepared to ensure competition of these services.

#### D. Inadequate Competition

Purchase order P0000505 was issued on December 7, 2000 for \$4,400 for the printing of 2,000 academic calendars for the fiscal year 2000-2001. The award was supported by written quotes of \$3,698, \$4,400 and \$6,875 that were received in May of 2000 and included a delivery date of July 7, 2000. The file did not document nor could the College explain the reasons for the dated solicitation and why the low response of \$3,698 was rejected. Section 11-35-1410 defines a responsible and responsive bidder. Section 11-35-1710 requires sufficient documentation for the rejection of a bid.

We recommend that awards be supported by current solicitation of competition. We also recommend that the College comply with the provisions of the Code when rejecting a bid.

#### COLLEGE RESPONSE

The College solicited bids for printing services for the academic calendar. The award was given to the bidder based on delivery time. However, this was not documented in the file as to why the low bidder did not receive the award. The Procurement Office is knowledgeable of the Code and will exercise compliance reviews of each request before purchase orders are processed to ensure competition according to the Code.

#### III. Quarterly Reports

The College did not prepare the following quarterly reports.

| <u>Type of report</u>                   | <u>Applicable quarter</u> |
|---|---------------------------|
| Minority Business Enterprise (MBE)      | 07/01/99 to 12/31/99      |
| Minority Business Enterprise (MBE)      | 01/01/00 to 03/31/00      |
| Minority Business Enterprise (MBE)      | 04/01/00 to 06/30/00      |
| Minority Business Enterprise (MBE)      | 07/01/00 to 09/30/00      |
| Minority Business Enterprise (MBE)      | 10/01/00 to 12/31/00      |
| Minority Business Enterprise (MBE)      | 01/01/01 to 03/31/01      |
| Sole source, emergency, trade in report | 07/01/99 to 09/30/99      |
| Sole source, emergency, trade in report | 10/01/99 to 12/31/99      |



Section 11-35-5240 (2) requires the reporting of awards to certified minority firms to the Small and Minority Business Assistance Office no later than ten days after the end of each quarter. Section 11-35-2440 requires the quarterly reporting of sole source and emergency procurements. Section 11-35-3830 defines the quarterly reporting requirements for trade-in sales.

We recommend the College implement procedures to assure compliance with the reporting requirements.

#### **COLLEGE RESPONSE**

The College concurs with the finding. These reports were prepared and given to the Auditor while on site. The Vice President for Fiscal Affairs has reviewed the Code with the Procurement Office and the accounting staff. These reports are assigned to the Procurement Officer with due dates to the Vice President for Fiscal Affairs. In addition, internal reports must be provided to the Vice President for Fiscal Affairs to ensure that the data for these reports can readily be obtained for timely submission.

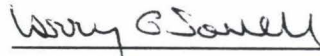
## CONCLUSION

As enumerated in our transmittal letter, corrective action based on the recommendations described in this report, we believe, will in all material respects place Denmark Technical College in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

The College has not requested increased procurement certification above the basic limit of \$5,000 allowed by the Procurement Code. Subject to corrective action listed in this report, we will recommend the College be allowed to continue procuring goods and services, consultant services, construction and information technology up to the basic level of \$5,000 as allowed by the South Carolina Consolidated Procurement Code and accompanying regulations.



Melissa Rae Thurstin  
Senior Auditor



Larry G. Sorrell, Manager  
Audit and Certification

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R. VOIGHT SHEALY  
MATERIALS MANAGEMENT OFFICER

September 26, 2001

Mr. R. Voight Shealy  
Materials Management Officer  
Materials Management Office  
1201 Main Street, Suite 600  
Columbia, South Carolina 29201

Dear Voight:

We have reviewed Denmark Technical College's response to our audit report for July 1, 1999 – June 30, 2001. Also, we have followed the College's corrective action during and subsequent to our field work. We are satisfied that the College has corrected the problem areas and the internal controls over the procurement system are adequate.

Additional certification was not requested. Therefore, we recommend the College be allowed to continue procuring all goods and services, construction services, information technology and consulting services up to the basic level of outlined in the Code.

Sincerely,

Larry G. Sorrell, Manager  
Audit and Certification

LGS/jl

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